

**Government of the Punjab
Planning and Development Department
Punjab Resource Management Programme**

**Implementing Medium Term Budgetary Framework
Inception Report**

December 2008

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Introduction

1. Punjab Government, with the assistance Asian Development Bank, has initiated second phase of PRMP (Punjab Resource Management Programme) reforms under Punjab Government Efficiency Improvement Program [PGEIP]. PGEIP is the continuation of PRMP and is a policy and governance reforms program that seeks to improve service delivery with particular emphasis on pro-poor sectors through structural reforms in systems and processes to manage public resources. Fiscal and Financial Management Reforms is one of the reform components to be dealt under the ambit of PGEIP. Under this component Government of Punjab (GoPb) intends to introduce and implementing Medium Term Budgetary Framework (MTBF) in the two Pilot Departments of Irrigation and Power (I&P) and Health.
2. Objective of this technical assistance is to introduce MTBF in I&P and Health Departments. Please refer to Appendix I for terms of references of Consultant. In order to move towards achieving these objectives Consultant visited Lahore in October and December. Meetings were held with the officials of PRMP, FD, P&D, I&P and HD during which a draft work plan was shared and agreed. Implementation according to work plan is already underway.
3. Before going any further it is also considered important to mention that this is not the first time GoPb is attempting to implement MTBF. Efforts to introduce and implement MTBF have also been made previously (FY 2004)
4. This is the first report (Inception) being issued by Consultant which is based on missions that were held in October and December 2008. It is basically divided into three sections. **Section I – MTBF approach and work plan** lays down the conceptual framework to be used for introducing MTBF and the work plan developed for its implementation showing key activities and timelines. **Section II – Team structure and composition** explains over-all Consultant team structure and it'. **Section III – Progress during Inception stage** – provides an update on achievements made during Inception Phase. **Section IV – Key Risks** attempts to highlight key risks in the foreseeable future. **Section V – Comments on Terms of Reference** provides comments on Consultant's ToR and also proposes suggestive revision. Further reports shall be issued as the implementation progresses in accordance with Clause E of the Terms of Reference.
5. Considerable key Pre-implementation and Implementation (as explained in Section I) activities had taken place before formal commencement of contract. While ToR's only require providing a detailed work plan during 'Inception Phase' but these activities are also being highlighted as they form an important element of progress that has been achieved to date under the guidance of Consultant
6. Consultant would like to place on record his thanks and appreciation to all the officials and staff of Finance Department, Planning and Development Department,

Irrigation and Power Department and Health Department. Progress during Inception phase and preparation of Inception Report would not have been possible without their guidance and support

I MTBF approach and work plan

7. The approach used to pilot implement MTBF in I&P and Health has been of typical conventional nature comprising of a combination of ‘top-down’ and ‘bottom-up’ processes under which:
 - a. Central departments (Finance Department & Planning and Development Department) focus on determining over-all fiscal space (current and development budget) available and in the light of this provide multi-year (3 year) preliminary budgetary ceilings (soft initially!) to pilot departments (‘top-down’);
 - b. Line Departments to start developing well estimated budget requirements for next three years with some additional focus on determining departmental service related outputs. A Sector Review is also performed by the Pilot Departments which looks at the strategic objectives, expenditure trends and helps in aligning and prioritizing / re-prioritizing multi-year budgetary requirements towards policy objectives.
 - c. Both Central Departments and Line Departments come together, present their arguments and enter into a constructive budget negotiation and dialogue. As a result of this multi-year budget ceilings are set using which the annual budget estimates for next year is finalized. Where as budgetary estimates for next years are shown as forecasts and are considered as a starting point for next years budget preparation exercise
8. Please refer to Appendix II for a diagrammatic presentation of this approach.
9. The above approach was discussed and agreed with senior management of Finance Department, Planning and Development Board, I&P and Health during a presentation made by Consultant on 12 October 2008. A copy of suggestive work plan was also shared.
10. Based on agreed approach a work plan was carefully designed and developed for which two following key stages have been envisaged:

Phase I Design and Development

11. These are basically the pre-implementation activities that would not only assist Consultant in gaining a better understanding of prevailing PFM environment in Finance Department, Planning and Development Department, I&P and Health but also in carrying out necessary activities that would lay foundation of implementing MTBF in two Pilot Departments for FY 2009-12. It would comprise of following key steps:

- a. Gaining understanding of organization structure, policy objectives, strategic plans, key activities and interventions, number, size and location of DDO's (including key development activities)
- b. Analysis of business process (budgeting, planning and execution) flows in Central Departments and two Pilot Departments
- c. Analysis of original budget, revised budget and actual expenditures for previous years
- d. Develop and agree conceptual framework for development of MTBF Budget Call Circular (MTBF BCC)
- e. Development of MTBF BCC including guidelines, instructions and forms based on agreed conceptual framework
- f. Discussion with key stakeholders on draft MTBF BCC (including performing reality checks)
- g. Determination of preliminary budget ceilings
- h. Finalization and formal issuance of MTBF BCC
- i. Taking stock of existing financial management capacity
- j. Understanding extent of IT usage for financial management purposes
- k. Taking stock of other Public Financial Management (PFM) initiatives planned or being carried out

Phase II Implementation

12. Major activities under this Phase would kick off once MTBF BCC which happens to be 'trigger' for planning and budgeting exercise in Punjab Government is formally issued. Specific activities for Implementation Phase would comprise of the following:
 - a. Appointment and notification of Core Teams in each Pilot Department (including developing Terms of Reference)
 - b. Workshops and briefings for Core Teams
 - c. Setting up MTBF support office in each Pilot Department
 - d. Installation of dedicated Consultant support team
 - e. Development of practical training material for MTBF workshops
 - f. Holding MTBF specific workshops for all Drawing and Disbursing Officers (DDO's) and Budget Preparing Officers (BPO's)
 - g. Handholding support and assistance to Central Departments and both Pilot Departments for compliance of instructions under MTBF BCC
 - h. Establishment of MTBF 'hotline' (support office)
 - i. Monitoring and follow-up of MTBF estimates (2009-12)
 - j. Trouble shooting issues
 - k. Taking stock of experiences and lessons learnt keeping in view of improvements (& reforms) required in terms of PFM environment (institutions, structures, regulations, procedures and HR) for rolling out MTBF reforms to all Pilot Departments
 - l. Viewing MTBF with in the wider context of PFM reforms

13. Please refer to Appendix III for detail implementation plan including key timelines

14. The above two Phases are not necessarily dependant on each other – some activities are likely to run parallel. Consultant expects to adopt a flexible and at times opportunistic approach during Pilot implementation exercise especially as apparently this happens to be first comprehensive attempt by GoPb to implement MTBF.
15. Further reports shall be issued as and when implementation reaches its advance stages. This among other things would also include careful analysis of lessons and experiences learnt during pilot implementation as this would feed into any plans by GoPb for further rolling out MTBF to other Line Departments and perhaps to Districts at some future stage.

II Team structure and composition

16. In order to deliver work plan and maximize effectiveness and impact of this technical assistance a team of Consultants has been set-up which is being led by international Consultant as the Team Lead who is being supported by a team of Local Consultants. Each Pilot Department has a dedicated team of resident Local Consultants in place to provide ‘hands-on’ support that would ensure smooth implementation and also timely disposal of issues as and when they arise. Please refer to Appendix IV for an overview of team structure.
17. Lead Consultant will be providing support on intermittent basis. Over-all guidance and technical leadership is being provided by International Consultant who visits Punjab after every four to five weeks. Roles and responsibilities have been carefully assigned to each team member to make the most of available resources.
18. During Inception Phase it became quite apparent that existing consulting resources would need to be increased keeping in view the workload forecast and first hand experiences of existing capacity during I&P MTBF workshop sessions [19(g)]. Consultant suggests hiring a Financial Analyst for Finance Department and a Assistant Financial analyst each in Irrigation and Power Department and Health Department.

III Progress during Inception Phase

19. Considerable progress has been achieved during Inception Phase during which certain key activities under Phase I and Phase II have now been successfully achieved:
 - a. Conceptual framework for Pilot Implementation finalized: Agreement has been achieved on Conceptual Framework for introducing MTBF on Pilot basis. This involved extensive consultations with key stakeholders, international experiences and also considering lessons and experiences learnt at MTBF implementation at the Federal Government.

- b. Core Teams notified in Pilot Departments. MTBF Core teams have been identified and officially notified in each Pilot Department which also involved developing their specific Terms of Reference (Appendix V).
 - c. Analytics of Pilot Departments complete: Consultant / Consultant Team has developed a reasonably good understanding of the Pilot Departments which among other things includes study of policy documents, key interventions and programs, nature, type and number of spending units, etc. This has proved to be very useful in designing and finalizing MTBF BCC
 - d. MTBF Cells established in Pilot Departments: MTBF Cells have been established in both Pilot Departments which would house Consultant Team responsible for providing hands-on support for pilot MTBF implementation.
 - e. MTBF BCC developed and issued to Pilot Departments: Comprehensive MTBF BCC has been designed and developed which went through a number of iterations. It also includes specially designed MTBF forms to be filled Pilot Departments. Comments of key stakeholders were incorporated and final draft was timely issued (12 November 2008) BCC to both Pilot Departments (including preliminary of budgetary ceilings). Please refer to Appendix VI for MTBF BCC
 - f. Capacity building for Core Teams initiated (on-going activity). Regular meetings and capacity building sessions are being held with MTBF Core Teams in each Pilot Department who are viewed as ‘agents of change’. These Teams are expected to lead MTBF reforms in each Pilot Department.
 - g. Workshops on MTBF BCC successfully held for I&P. Further to issuance of MTBF BCC training workshops were designed and delivered for all the DDO’s and budget preparing officers in I&P. Keeping in view the size, mix and location of DDO’s and budget preparing officers these workshops were held in Lahore, Multan and Faisalabad
20. Consultant will make every attempt to capitalize on the progress made during Inception Phase and shall endeavour to maintain the momentum already developed.

IV Key risks

21. All public sector reform projects carry risks which are of implicit and explicit in nature and Pilot implementation of MTBF in GoPb is no different. Consultant feels important to flag following foreseeable risks and potential obstacles to reform at this early stage of Pilot MTBF implementation:
- a. Central and Line Departments remain committed to objectives of MTBF during implementation, including realistic multi-year budgetary ceilings and better linking preparation of recurrent and development budget

- b. Budgeting and accounting cadres in Central Departments and Line Departments receptive to changes in budgeting approach and procedures
 - c. Exceptional macroeconomic and fiscal shocks mean that implementation of a reform programme involving credible multiyear budget ceilings is not impeded
 - d. Limited capacity in Central and Line Departments restricts ability to appreciate and implement MTBF BCC
 - e. Limited IT capacity and availability of IT tool in Central and Line Departments to consolidate and analyze MTBG budgets
22. Consultant will seek to manage the overall MTBF Pilot implementation, however, managing risks proactively including designing mitigation strategy should be the shared jointly with GoPb

V Comments on Terms of Reference

23. The Terms of Reference have been reviewed in detail and also discussed with Additional Secretary (Finance Department) and Deputy Programme Director (PRMP). It appears certain elements of ToR's were drafted keeping in view the wider context of public expenditure management and other reforms and may not be suitable in the given pilot implementation context. Consultant proposes the suggestive Terms of Reference (Section C and E only) as per Appendix VII